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## **FDIC's Small-Dollar Loan Pilot Shows Banks Can Offer Alternatives to High-Cost, Short-Term Credit; Results in Safe, Affordable and Feasible Template for Small-Dollar Loans**

A report issued today by the Federal Deposit Insurance Corporation (FDIC) highlights final results of the FDIC's small-dollar loan pilot program. The pilot, launched in 2008, was a two-year case study designed to illustrate how banks can profitably offer affordable small-dollar loans as an alternative to high-cost credit products, such as payday loans and fee-based overdraft programs.

The pilot study resulted in the creation of the following template of elements for safe, affordable and feasible small-dollar loans:

<b>Safe, Affordable, and Feasible Template for Small-Dollar Loans</b>	
<b>Product Element</b>	<b>Parameters</b>
Amount	\$2,500 or less
Term	90 days or more
Annual Percentage Rate (APR)	36 percent or less
Fees	Low or none; origination and other upfront fees plus interest charged equate to APR of 36 percent or less



Congress created the Federal Deposit Insurance Corporation in 1933 to restore public confidence in the nation's banking system. It promotes the safety and soundness of these institutions by identifying, monitoring and addressing risks to which they are exposed. The FDIC receives no federal tax dollars — insured financial institutions fund its operations.

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Underwriting	Streamlined with proof of identity, address, and income, and a credit report to determine loan amount and repayment ability; loan decision within 24 hours
Optional Features	Mandatory savings and financial education

The template illustrates a best practices model for safe, affordable and feasible small-dollar lending. It is reflective of the programs and products offered by pilot banks and can be replicated. The template is relatively simple to implement and requires no particular technology or other major infrastructure investment. In addition, the template can help banks better adhere to existing regulatory guidance on offering alternatives to fee-based overdraft programs. (See "Overdraft Protection Programs, Joint Agency Guidance," Financial Institution Letter-11-2005, February 18, 2005, at <http://www.fdic.gov/news/news/financial/2005/fil1105.html>.)

The best practices and elements of success resulting from the pilot underpin the Safe, Affordable and Feasible Small-Dollar Loan Template. For example, most pilot bankers indicated that small-dollar loans were used as a strategy for developing or retaining long-term relationships with consumers. In addition, support from a bank's board of directors and senior management appeared to be most important in terms of the program's overall success. Further, the study found that the most prominent product elements linked to success were loan terms that were longer than a few paycheck cycles to give consumers enough time to repay, followed by streamlined but solid underwriting.

The pilot concluded with 28 participating volunteer banks (link to list) with total assets ranging from \$28 million to nearly \$10 billion. Participating banks made more than 34,400 small-dollar loans with a principal balance of \$40.2 million. Small-dollar loan default rates were in line with default rates for similar types of unsecured loans.

"Our pilot banks have demonstrated that safe and affordable alternatives to high-cost forms of emergency credit can fit within their business plans," said FDIC Chairman Sheila C. Bair. "The FDIC is extremely grateful to the boards of directors, management and employees of all participating pilot banks for the successful execution of the study, and for the development of the Safe, Affordable and Feasible Template for Small-Dollar Loans. Going forward, the FDIC will continue to work with the banking industry, consumer and community groups, nonprofit organizations, other government agencies, and others to research and pursue strategies that could prove useful in expanding the supply of small-dollar loans."

The full text of the report can be found at <http://www.fdic.gov/bank/analytical/quarterly/2010-vol4-2/fdic-quarterly-vol4no2-smalldollar.pdf>. The Safe, Affordable, and Feasible Template for Small-Dollar Loans can be found at <http://www.fdic.gov/smalldollarloans/>.

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